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CREDIT COUNSELING

For many debt-laden consumers, a credit counseling agency is the only thing that stands between them and personal bankruptcy. But if they don't select the right counseling firm, they could find themselves in worse shape than they imagined. "Be very, very careful, because there can be substantially more harm than good," said Paul Richard, executive director of the Institute of Consumer Financial Education in San Diego.

Some credit counseling firms charge high fees to set up and maintain a program, experts say. "There is a wide variety in what people will charge, so you really need to understand that up front," said Leslie Pettijohn, Texas consumer credit commissioner. This isn't to say that credit counseling doesn't offer benefits. "If you see a tight spot coming up, they can do a whole lot for you prevention-wise and run interference before it goes delinquent," Mr. Richard said.

First, check to see if the credit agency is a member of the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agencies. Both establish professional and training standards that credit-counseling firms must meet in providing services to consumers. The leading accrediting body is the Council on Accreditation, a nonprofit, independent organization. "It means that some third-party entity has examined your processes and procedures and services for value and for quality standards," said Bettye Banks, senior vice president of education at Consumer Credit Counseling Service of Greater Dallas, which is accredited by the Council on Accreditation.

Even creditors look for that seal of approval. "That accreditation tells us that those counseling firms subscribe to an ethical code that puts the consumer first," said Jim Donahue, spokesman for MBNA America Bank in Wilmington, Del. The credit counseling industry has exploded since the 1970s and '80s, when the business largely consisted of about 200 nonprofit credit counseling agencies under the "Consumer Credit Counseling Service" label. Then, in the late 1980s and early 1990s, there was an explosion of consumer credit and bankruptcies. That sparked a huge increase in the number of credit and debt counseling organizations. Today, there are more than 1,000 credit and debt management organizations, according to the National Foundation for Credit Counseling.

Before signing up with a counseling firm, make a visit first. "Try to see a credit counselor in person," said Travis Plunkett, legislative director at the Consumer Federation of America. "You need to take some time to run through a budget analysis so they can see what your problems are." Many of the firms offer telephone consultations instead of in person sessions that help consumers learn skills to better manage their money. You can also determine from your visit whether the agency treats you with respect and dignity or makes you feel ashamed or guilty about your credit problems.

What's the cost?

It is extremely important that you nail down the fees, if any, that the agency charges. "Know that nonprofit doesn't mean low-cost," Mr. Plunkett said. The Association of Independent Consumer Credit Counseling Agencies tells members that services must be available to the public regardless of ability to pay, and at no time should a person be refused service due to an inability to pay. Generally, there may be a fee to setup a debt management plan and a monthly fee or "requested donation" to maintain the plan.

The Association of Independent Consumer Credit Counseling Agencies requires its member agencies to limit to \$75 the fees to set up a debt management plan. Maximum fees, or requested donations, for monthly maintenance of a plan shouldn't exceed \$50, according to the association.

Average price

In 2001, the average cost to provide budget-counseling sessions was \$14, according to the foundation for credit counseling. The average enrollment fee for a debt management plan was \$19 and the average fee for monthly debt management plan services was \$12.

In a debt management plan, you make one deposit to the credit counseling agency during regular intervals and the agency disburses the money among your creditors. Know how often the agency sends money to creditors. Some disburse money every day, some every month and some weekly. You want to ensure that your payments reach creditors on time. The last thing you need is another black mark on your credit record when you're trying to restore it.

MBNA wants to see counseling firms disburse payments monthly Mr. Donahue said. Consumers may wonder whether undergoing credit counseling will tarnish their credit reputation. Fair, Isaac and Co., which developed the FICO credit score, said the calculation no longer factors in whether someone is in credit counseling. "It does not affect your FICO score to have any indication on your credit report that you have sought or are currently seeking credit counseling," said Craig Watts, consumer affairs manager at Fair, Isaac. However, individual creditors may still raise their eyebrow if they see you're in credit counseling.

"It depends on how the credit counseling agency structures their payment," said Catherine Pulley, spokeswoman for the American Bankers Association, which represents banks. Say a credit counseling firm negotiates with a creditor to reduce your debt. "In essence, they're telling creditors you can't pay 100 percent, but you can pay 50 percent, so let's agree on what you can pay, so they're negotiating a lower balance for you," Mr. Watts said. "Creditors are likely to report that activity back to the credit bureau in a negative way, because from their perspective, you have reneged on your original promise, and that will lower your credit score."

Service variety

Make sure the credit counseling agency offers a variety of services, such as budgeting classes. If the firm seems focused only on signing you up for its debt management plan, go somewhere else. "It doesn't provide you with the basic education that most of the people who seek advice from us need," said Joel Greenberg, chairman of the Association of Independent Consumer Credit Counseling Agencies. Ask if the credit-counseling agency will work on your account if the creditor doesn't make a financial contribution to the agency.

Some creditors will give the agency a contribution that consists of a percentage of total funds disbursed. "Creditors are our largest means of support," Ms. Banks said. "The rest comes from donations, grants and endowments, and gifts." Creditor contributions are called fair share contributions, and they've fallen to between 6 percent and 8 percent of every consumer dollar recovered and returned to creditors, from 12 percent to 15 percent five years ago, Mr. Greenberg said.

Creditors say they're rewarding the credit counseling agencies that meet their standards. Financial support from creditors doesn't influence the way Consumer Credit Counseling serves clients, Ms. Banks said. "We were designed and set up to service troubled debtors," she said. "We walk a fine line and we do it successfully and have done so for the last 50 years." A credit agency may ask you for a voluntary contribution to support its services. Be sure you ask whether your first monthly payment is considered a start-up fee for the agency and won't be paid to creditors.

Good company?

Some debt management firms have drawn the wrath of consumers. AmeriDebt, which has heavily advertised its services, has been accused by clients of not getting their payments to creditors on time. The Illinois Attorney General's Office is suing AmeriDebt, charging that the company hides fees and fails to send consumers' payments to creditors. "Consumers drowning in debt are caught in an undertow of hidden fees, missed payments and failed promises," Attorney General Lisa Madigan said. Her suit says AmeriDebt failed to disclose hidden fees and payments and didn't tell consumers their first payment is kept by the company and not sent to creditors. AmeriDebt officials say they're trying to resolve the complaints. "The organization very much recognizes that there are concerns out there and it is very focused on doing everything in its power to resolve the issues that have been raised," said Scott Stapf, spokesman for the company, which is based in Germantown, Md. "It does not require the payment of any fees. It strictly relies upon voluntary contributions."

Finally, be leery of credit counseling firms that promise to erase your bad credit record quickly. You didn't get into trouble overnight, and you won't get out of it overnight. You can't make a charge-off go away if it truly happened," Ms Banks said. "We don't promise A-1 credit. We're about damage control and rebuilding."

Article written by Pamela Yip (Dallas Morning News) — Reprinted with permission from Dallas Morning News.

Web Sites To Help With Your Search

For more information on credit counseling agencies, check out these Web sites:

- www.cccs.net — This is the Web site of the Consumer Credit Counseling Service of Greater Dallas.
- www.debtadvice.org — This site is sponsored by the National Foundation for Credit Counseling, the umbrella group for Consumer Credit Counseling Services, which establishes standards for its member agencies to follow.
- <http://www.aiccca.org/> — The Association of Independent Consumer Credit Counseling Agencies is another umbrella group for credit counseling agencies. It also sets standards for its member agencies.
- www.coanet.org — The Council on Accreditation is the leading accrediting body for credit counseling agencies.